

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, June 11, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Karl Polen, Chairman, Arizona State Retirement System Board called the meeting to order at 9:01 A.M., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Mr. Karl Polen, Chairman
Mr. James Jenkins, Vice Chairman
Mr. Jim Bruner
Dr. Merlin DuVal
Dr. Chuck Essigs
Mr. Alan Maguire
Mr. Norman Miller
Mr. Ray Rottas

Excused: Mr. David Borg

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the May 21, 1999 Regular Meeting of the Arizona State Retirement System Board.

Motion: Dr. Chuck Essigs moved to approve the minutes of the May 21, 1999 regular meeting of the ASRS Board.

Mr. Jim Bruner seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

3. Board Approval of Consent Schedule.

Motion: Dr. Merlin DuVal moved that the ASRS Board approve the Summary Report of Retirements, Refunds, and Death Benefits; System Transfers; and Applications and Agreements between Employers and the Arizona State Retirement System.

Dr. Chuck Essigs seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

4. Appointment of Fiscal Year 1999/2000 Arizona State Retirement System Board Committee Members.

Mr. James Jenkins, Chairman Elect, appointment the fiscal year 1999/2000 Arizona State Retirement System Board Committee members.

Executive Compensation

Mr. Norman Miller, Chairman
Mr. Karl Polen
Dr. Merlin DuVal
Dr. Chuck Essigs
Mr. James Jenkins

Board Policy and Procedures

Mr. Ray Rottas, Chairman
Mr. Karl Polen
Mr. Alan Maguire
Mr. James Jenkins
Mr. David Borg

Audit

Dr. Chuck Essigs, Chairman
Mr. James Jenkins
Mr. David Borg

Investment Review

Mr. Karl Polen, Chairman
Mr. Ray Rottas
Mr. Alan Maguire
Dr. Chuck Essigs
Mr. James Jenkins
Mr. Norman Miller
Mr. Jim Bruner

External Relations and Legislative

Mr. Jim Bruner, Chairman
Mr. Ray Rottas
Dr. Chuck Essigs
Mr. James Jenkins
Mr. Norman Miller

LTD/Health Insurance

Mr. David Borg, Chairman
Dr. Merlin DuVal
Dr. Chuck Essigs
Mr. James Jenkins

Budget and Long Range Planning

Mr. James Jenkins, Chairman
Mr. Alan Maguire
Mr. David Borg
Mr. Jim Bruner

5. Presentation, Discussion and Appropriate Action Regarding the Implications of Extended Equity Trading Hours on the ASRS Portfolios.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, reported there have been various proposals to extend the U.S. equity trading hours. Mr. Dennison stated that the increase in Internet traders and the push of technology are primarily driving this change.

A likely scenario of the extended trading hours includes the following:

- ☐ evening sessions on the NYSE and NASDAQ
- ☐ official closing prices will remain 4:00 p.m.
- ☐ volume and liquidity will be very limited at the start
- ☐ significant regulatory issues exist, as market manipulation will require little capital

Mr. Dennison concluded that the impact of extended trading hours would be virtually none. Prices and valuations will still be determined by the main-NYSE session close by understanding of institutional investors, and that there may be periodic unusual price movements when the market opens as evening session prices are adjusted by institutional-size orders.

6. Presentation, Discussion and Appropriate Action Regarding the Callan Engagement Related to the Asset/Liability Study, Including Various Asset Classes, Various Asset Allocations, and Rebalancing Strategies.

Mr. Paul Erlendson and Mr. Ken Brunke, Senior Vice Presidents, and Mr. Jay Kloepfer, Director of Capital Market Research, Callan Associates presented the first of three studies; Asset/Liability, including various asset classes and allocations, and rebalancing strategies.

Mr. Erlendson requested from the Board clarification on how Callan may measure whether or not safety has been achieved with respect to the investment goal to retain safety as a principle consideration in the investment of ASRS assets.

- ☐ Mr. Ray Rottas pointed out that liquidity is a major factor in the safety of the fund, the use of the fund, and how it fits with what type of investments are made.
- ☐ Dr. Chuck Essigs stated that the ASRS Board needs to look at how to eliminate risks, but still meet goals so that employees have security when retiring.
- ☐ Mr. Alan Maguire reiterated that the ASRS has one clear mandate with regard to the fund – that it is a trust fund and it has two objectives: 1) to assure the availability of funding for the guaranteed retirement benefits of the members of the system now and into the future, and 2) to assure that the cost of the system is borne over an appropriate period of time and does not create a shock for the tax payers of Arizona. Mr. Maguire expressed that these objectives create an implied prioritization of the investment goals.

Mr. Maguire requested that Callan not refer to real estate and alternative investments together when discussing alternative asset classes so that the impression is not made that these two classes behave the same.

Mr. Norman Miller was excused at 10:52 a.m.

Mr. Jim Bruner was excused at 10:52 a.m.

Dr. Merlin DuVal requested that Callan present the results of a further study addressing at what funded level would the ASRS be relatively assured of an ongoing fully funded status. This graph will be presented at the August 20, 1999, ASRS Board meeting.

Mr. Alan Maguire stated the analysis performed by Callan addressed the target mix; however, the analysis did not address TAA. Mr. Maguire pointed out that TAA has a radical effect on the actual mix versus the target mix because it is currently fully skewed to one side. Mr. Maguire requested that TAA be discussed in the future. Callan will present this issue to the Board at the August 20, 1999, ASRS Board meeting.

Mr. James Jenkins was excused at 11:22 a.m.

Mr. Ray Rottas commended Callan on the tremendous job and effort in completing the study. Mr. Rottas stated he appreciated the format of the report, and felt it exceeded the expectation of the Investment Review Board Committee.

Mr. Ray Rottas was excused at 11:23 a.m.

Mr. LeRoy Gilbertson requested clarification on the large cap, mid cap, and small cap equity sub-components according to the standard ASRS indices of the SP500, SP400, and Russell 2000. This topic will be discussed at the August 20, 1999, ASRS Board meeting.

7. Director's Report

Because of time constraints, the on-line presentation of the Arizona State Retirement System website was postponed to the July 16, 1999 ASRS Board meeting.

8. Board Requests for Agenda Items.

There were no requests for agenda items.

9. Call to the Public.

There were no requests to speak from the Phoenix or Tucson public.

10. The next ASRS Board meeting is scheduled for Friday, July 16, 1999 at 9:00 a.m. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona.

11. Adjournment of the ASRS Board.

Mr. Karl Polen, Chairman adjourned the June 11, 1999 meeting of the ASRS Board at 11:43 a.m.

Respectfully submitted,

Jalene Trivino, Secretary

Date

LeRoy Gilbertson, Director

Date